

**EMMETSBURG MUNICIPAL UTILITIES
EMMETSBURG, IOWA
COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2005**

EMMETSBURG MUNICIPAL UTILITIES

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EMMETSBURG MUNICIPAL UTILITIES

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|-----------------------------------|---------------------|
| Dan Cooper | Board Member | Dec. 31, 2010 |
| John Wright | Board Member | Dec. 31, 2011 |
| Nick Steinkamp | Board Member | Dec. 31, 2006 |
| Ronald Ludwig | Board Member | Dec. 31, 2007 |
| Paul Saxton | Board Member | Dec. 31, 2009 |
| John Bird | City Administrator/Superintendent | |
| Kathy Gunderson | Administrative Assistant | |
| John D. Brown | Attorney | |

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

Edwin J. Burdorf, CPA
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the accompanying combining statement of net assets of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2005, and the related combining statement of revenue, expenses and changes in net assets, and combining statement of cash flows. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Capital assets policies do not conform to U.S. generally accepted accounting principles as described in Note 1D to the financial statements. The effect on the financial statements of the preceding practice is not reasonably determinable.

In our opinion, except for the effects, if any, of the matters discussed in the third paragraph, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Emmetsburg Municipal Utilities as of June 30, 2005 and the changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



Members American Institute of Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2005, on our consideration of the Emmetsburg Municipal Utilities' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and page 21, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The combining schedule of operating expenses on page 21 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, except for the effects, if any, of the matters discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burdorf, Parnott And Associates, P.C.

November 21, 2005

Management's Discussion and Analysis

Our discussion and analysis of the Emmetsburg Municipal Utilities financial performance provides an overview of the Utilities financial activities for the year ended June 30, 2005. Please read it in conjunction with the Utilities' financial statements, which follow.

Financial Highlights

- The Utilities' net assets increased \$285,619 as a result of this year's operations. This is 3 percent increase.
- The Utilities' return on total ending assets was nearly 2.6 %.
- The Utilities' total revenues were \$3,378,268 in 2005 compared to \$2,976,298 in 2004.
- During the year ended June 30, 2005, the Utilities' had total expenses, excluding depreciation, of \$2,860,870.

Using This Annual Report

This annual report consists of a series of financial statements. The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets (on Pages 10 and 11) provide information about the activities of the Utilities' as a whole. Fund financial statements report the Utilities' operations in more detail than the government-wide statements by providing information about each of the Utilities' funds.

Reporting the Funds Maintained by the Utilities' as a Whole

The Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets

Our analysis of the funds maintained by the Utilities' as a whole begins on page 10. One of the most important questions asked about the Utilities' finances is, "Is the Utilities as a whole better off or worse off as a result of the year's activities?" The Combining Statement of Net Assets and Combining Statement of Revenues, Expenses and Changes in Net Assets report information about the Utilities' as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utilities' net assets and changes in them. You can think of the Utilities' net assets-the difference between assets and liabilities-as one way to measure the Utilities' financial health, or financial position. Over

time, increases or decreases in the Utilities net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as the condition of the Utilities' infrastructure, to assess the overall health of the Utilities'.

In the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets, we show one kind of activity: a business-type activity.

Business-type activities show revenues earned, resources provided for, and expenses incurred for the provision of gas, water and sewer services to the City of Emmetsburg.

Reporting the Most Significant Funds Maintained by the Utilities'

Fund Financial Statements

All the funds are major funds. The fund financial statements begin on page 10 and provide detailed information about the most significant funds-not the Utilities' as a whole. The Utilities' funds use the following accounting approaches.

Proprietary funds-all of the Utilities' expenses incurred is for the provision of gas, water and sewer services reported in a proprietary fund. When the City charges customers for the services it provides, these services are reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Combining Statement of Net Assets and the Combining Statement of Revenues, Expenses and Changes in Net Assets. In fact, the Utilities' enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

The Funds maintained by the Utilities as a Whole

For the year ended June 30, 2005 and 2004, net assets changed as follows:

Continued on the next page

Summary of Operations and Changes in Net Assets

| | <u>2005</u> | <u>2004</u> |
|-----------------------------------|-------------------|------------------|
| Net operating revenues | \$3,378,268 | 2,976,298 |
| Net operating expenses | <u>3,102,927</u> | <u>2,742,572</u> |
| Net operating income | 275,341 | 233,726 |
| Non-operating revenue | 137,159 | 18,303 |
| Transfers from primary government | 0 | 9,810 |
| Transfers to primary government | <u>(126,881)</u> | <u>(122,942)</u> |
| Net increase in net assets | <u>\$ 285,619</u> | <u>138,897</u> |

Net Assets

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|-------------------|
| Assets: | | |
| Current and other assets | \$ 3,500,143 | 3,648,877 |
| Capital assets | <u>7,386,203</u> | <u>6,547,576</u> |
| Total assets | <u>10,886,346</u> | <u>10,196,453</u> |
| Liabilities: | | |
| Current liabilities | 290,654 | 222,100 |
| Non-current liabilities | <u>779,124</u> | <u>443,407</u> |
| Total liabilities | 1,069,778 | 665,507 |
| Net assets: | | |
| Invested in capital assets (net of debt) | 6,597,956 | 6,115,576 |
| Unreserved | <u>3,218,612</u> | <u>3,415,370</u> |
| Total liabilities and net assets | <u>\$10,886,346</u> | <u>10,196,453</u> |

Revenues

| | <u>2005</u> | <u>2004</u> |
|------------------------------|--------------------|------------------|
| Operating: | | |
| Residential | \$1,466,786 | 1,388,834 |
| Commercial | 1,162,802 | 924,176 |
| Public authority | 233,093 | 199,631 |
| Customer fees | 455,980 | 397,944 |
| Interfund services provided | 37,176 | 36,249 |
| Penalties | 2,932 | 3,081 |
| Other | <u>19,499</u> | <u>26,383</u> |
| Total operating | <u>3,378,268</u> | <u>2,976,298</u> |
| Non-operating revenues: | | |
| Interest income | 50,062 | 38,261 |
| Grant proceeds | <u>121,769</u> | <u>0</u> |
| Total non-operating revenues | <u>171,831</u> | <u>38,261</u> |
| Total revenues | <u>\$3,550,099</u> | <u>3,014,559</u> |

For the funds maintained by the Utilities', total revenues for June 30, 2005 increased by \$535,540, from total revenues for the year ended June 30, 2004.

The increase in revenue was primarily due to increase in natural gas billings. The average cost paid for natural gas by the Utilities' for the year ended June 30, 2005 was \$7.18 per MCF compared to \$6.00 per MCF for the year ended June 30, 2004. The additional cost was past on the customer. In addition to the increased billings of natural gas, the Utilities received a grant of \$121,769 for the sewer outfall improvement project as discussed in note 10 to the financial statements.

| Expenses | | |
|--|--------------------|------------------|
| | <u>2005</u> | <u>2004</u> |
| Operating: | | |
| Personal services | \$ 364,724 | 368,861 |
| Contractual | 215,109 | 185,342 |
| Materials, supplies and Maintenance | 2,081,984 | 1,769,852 |
| Utilities | 55,304 | 58,068 |
| Depreciation | 276,729 | 284,222 |
| Uncollected accounts | 7,060 | 5,457 |
| Interfund services used | 55,077 | 52,770 |
| Other | <u>46,940</u> | <u>18,000</u> |
| Total operating | \$3,102,927 | 2,742,572 |
| Non-operating expenses: | | |
| Interest expense | 22,013 | 19,958 |
| Net loss on disposal of capital assets | <u>12,659</u> | <u>0</u> |
| Total non-operating expenses | <u>34,672</u> | <u>19,958</u> |
| Total expense | <u>\$3,137,599</u> | <u>2,762,530</u> |

The total expenses increased by \$375,069 from the prior year. This resulted primarily from higher cost of natural gas purchased as discussed above in revenues. The total increase in cost of natural gas purchased over the prior year was \$410,051.

Capital Asset and Debt Administration

Capital Assets

Continued on the next page

| | Balance July 1, 2004 | Additions | Disposals | Balance June 30, 2005 |
|-------------------------------|----------------------------|-----------|-----------|-----------------------------|
| Gas Department: | \$ | | | |
| Land | 1,039 | 0 | 0 | 1,039 |
| Structures & plant | 387,845 | 0 | (54,526) | 333,319 |
| Distribution system | 1,075,348 | 25,571 | 0 | 1,100,919 |
| Equipment, meters & mains | 752,466 | 14,849 | 0 | 767,315 |
| Total assets costs | 2,216,698 | 40,420 | (54,526) | 2,202,592 |
| Less accumulated depreciation | 1,357,859 | 63,699 | (41,868) | 1,379,690 |
| Gas Department assets, net | \$ 858,839 | (23,279) | (12,658) | 822,902 |

| | | | | |
|-------------------------------|--------------|---------|----------|-----------|
| Water Department: | | | | |
| Land | \$ 67,067 | 0 | 0 | 67,067 |
| Structures & plant | 517,471 | 0 | 0 | 517,471 |
| Distribution system | 1,742,933 | 146,471 | 0 | 1,889,404 |
| Equipment, meters & mains | 961,085 | 7,976 | 0 | 969,061 |
| Construction in progress | 31,721 | 192,977 | (31,721) | 192,977 |
| Total assets costs | 3,320,277 | 347,424 | (31,721) | 3,635,980 |
| Less accumulated depreciation | 1,460,275 | 72,253 | 0 | 1,532,528 |
| Water Department assets, net | \$ 1,860,002 | 275,171 | (31,721) | 2,103,452 |

| | | | | |
|-----------------------------------|--------------|---------|----------|-----------|
| Sanitation Department: | | | | |
| Land | \$ 84,542 | 0 | 0 | 84,542 |
| Structures & plant | 4,321,950 | 0 | 0 | 4,321,950 |
| Distribution system | 1,312,300 | 87,259 | 0 | 1,399,559 |
| Equipment, meters & mains | 528,393 | 7,260 | 0 | 535,653 |
| Construction in progress | 49,390 | 764,630 | (87,258) | 726,762 |
| Total assets costs | 6,296,575 | 859,149 | (87,258) | 7,068,466 |
| Less accumulated depreciation | 2,467,840 | 140,777 | 0 | 2,608,617 |
| Sanitation Department assets, net | \$ 3,828,735 | 718,372 | (87,258) | 4,459,849 |

| | Balance July 1, 2003 | Additions | Disposals | Balance June 30, 2004 |
|-------------------------------|----------------------------|-----------|-----------|-----------------------------|
| Gas Department: | \$ | | | |
| Land | 1,039 | 0 | 0 | 1,039 |
| Structures & plant | 362,700 | 25,145 | 0 | 387,845 |
| Distribution system | 1,075,348 | 0 | 0 | 1,075,348 |
| Equipment, meters & mains | 743,547 | 8,919 | 0 | 752,466 |
| Total assets costs | 2,182,634 | 34,064 | 0 | 2,216,698 |
| Less accumulated depreciation | 1,282,769 | 75,090 | 0 | 1,357,859 |
| Gas Department assets, net | \$ 899,865 | (41,026) | 0 | 858,839 |

| | Balance July 1, 2003 | Additions | Disposals | Balance June 30, 2004 |
|-----------------------------------|----------------------------|-----------|-----------|-----------------------------|
| Water Department: | | | | |
| Land | \$ 67,067 | 0 | 0 | 67,067 |
| Structures & plant | 517,471 | 0 | 0 | 517,471 |
| Distribution system | 1,517,813 | 225,120 | 0 | 1,742,933 |
| Equipment, meters & mains | 957,009 | 4,076 | 0 | 961,085 |
| Construction in progress | 193,521 | 31,721 | (193,521) | 31,721 |
| Total assets costs | 3,252,881 | 260,917 | (193,521) | 3,320,277 |
| Less accumulated depreciation | 1,388,390 | 71,885 | 0 | 1,460,275 |
| Water Department assets, net | \$ 1,864,491 | 189,032 | (193,521) | 1,860,002 |
| Sanitation Department: | | | | |
| Land | \$ 84,542 | 0 | 0 | 84,542 |
| Structures & plant | 4,292,247 | 29,703 | 0 | 4,321,950 |
| Distribution system | 1,068,332 | 243,968 | 0 | 1,312,300 |
| Equipment, meters & mains | 526,454 | 1,939 | 0 | 528,393 |
| Construction in progress | 216,698 | 49,390 | (216,698) | 49,390 |
| Total assets costs | 6,188,273 | 325,000 | (216,698) | 6,296,575 |
| Less accumulated depreciation | 2,330,593 | 137,247 | 0 | 2,467,840 |
| Sanitation Department assets, net | \$ 3,857,680 | 187,753 | (216,698) | 3,828,735 |

Depreciation expense for each department is found on page 11.

Debt

The Sanitation Department, had \$743,247 of loans outstanding at year-end, compared to \$432,000 last year.

Economic Factors and Next Year's Budget and Rates

Several economic factors affected decisions made by the Utilities' in setting its fiscal 2006 budget. The Utilities' fiscal 2006 budget has increased over fiscal 2005.

Contacting the Utilities Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Utilities finances and to show the Utilities accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's Office at 2021 Main, Emmetsburg, Iowa.

John Bird

City Administrator/Superintendent

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Statement of Net Assets
Proprietary Funds
June 30, 2005

| Assets | Gas Department | Water Department | Sanitation Department | Total 2005 |
|---|---------------------------|-----------------------------|----------------------------------|-----------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 855,560 | 81,526 | 0 | 937,086 |
| Accounts receivable | 195,144 | 0 | 34,917 | 230,061 |
| Current portion of notes receivable | 2,376 | 0 | 0 | 2,376 |
| Other receivables | 209 | 0 | 0 | 209 |
| Accrued billing | 29,769 | 25,630 | 21,753 | 77,152 |
| Accrued interest receivable | 1,041 | 951 | 150 | 2,142 |
| Accrued interest receivable - Primary Government | 672 | 0 | 0 | 672 |
| Interfund receivable | 65,707 | 0 | 3,387 | 69,094 |
| Prepaid expenses | 6,261 | 11,111 | 11,191 | 28,563 |
| Total current assets | 1,156,739 | 119,218 | 71,398 | 1,347,355 |
| Noncurrent assets: | | | | |
| Loan receivable - Primary Government | 52,000 | 0 | 0 | 52,000 |
| Notes receivable (net of current portion above) | 46,105 | 0 | 0 | 46,105 |
| | 98,105 | 0 | 0 | 98,105 |
| Restricted assets - cash and cash equivalents | 30,407 | 5,470 | 0 | 35,877 |
| Assets whose use is limited: | | | | |
| Cash and cash equivalents | 255,607 | 197,149 | 220,300 | 673,056 |
| Certificates of deposit | 699,750 | 540,000 | 100,000 | 1,339,750 |
| | 955,357 | 737,149 | 320,300 | 2,012,806 |
| Loan fees | 0 | 0 | 6,000 | 6,000 |
| Capital assets: | | | | |
| Land | 1,039 | 67,067 | 84,542 | 152,648 |
| Structures and plant | 333,319 | 517,471 | 4,321,950 | 5,172,740 |
| Distribution system | 1,100,919 | 1,889,404 | 1,399,559 | 4,389,882 |
| Equipment, meters and mains | 767,315 | 969,061 | 535,653 | 2,272,029 |
| Construction in progress | 0 | 192,977 | 726,762 | 919,739 |
| | 2,202,592 | 3,635,980 | 7,068,466 | 12,907,038 |
| Less: Accumulated depreciation | (1,379,690) | (1,532,528) | (2,608,617) | (5,520,835) |
| Net capital assets | 822,902 | 2,103,452 | 4,459,849 | 7,386,203 |
| Total assets | \$ 3,063,510 | 2,965,289 | 4,857,547 | 10,886,346 |

See notes to the financial statements.

| <u>Liabilities and Net Assets</u> | <u>Gas Department</u> | <u>Water Department</u> | <u>Sanitation Department</u> | <u>Total 2005</u> |
|---|----------------------------------|------------------------------------|---|------------------------------|
| Current liabilities: | | | | |
| Accounts payable | \$ 91,908 | 20,921 | 20,485 | 133,314 |
| Other liabilities payable | 8,053 | 2,068 | 0 | 10,121 |
| Current portion of long-term debt | 0 | 0 | 45,000 | 45,000 |
| Accrued vacation pay | 3,984 | 3,589 | 2,419 | 9,992 |
| Accrued interest payable | 0 | 0 | 2,124 | 2,124 |
| Interfund payable | 0 | 3,387 | 65,707 | 69,094 |
| Due to Primary Government | 7,003 | 7,003 | 7,003 | 21,009 |
| Total current liabilities | 110,948 | 36,968 | 142,738 | 290,654 |
| Noncurrent liabilities: | | | | |
| Customer deposits | 30,407 | 5,470 | 0 | 35,877 |
| Long-term debt (net of current portion above) | 0 | 0 | 743,247 | 743,247 |
| Total liabilities | 141,355 | 42,438 | 885,985 | 1,069,778 |
| Net Assets: | | | | |
| Investment in capital assets (net of related debt) | 822,902 | 2,103,452 | 3,671,602 | 6,597,956 |
| Unrestricted | 2,099,253 | 819,399 | 299,960 | 3,218,612 |
| Total net assets | 2,922,155 | 2,922,851 | 3,971,562 | 9,816,568 |
| Total liabilities and net assets | \$ 3,063,510 | 2,965,289 | 4,857,547 | 10,886,346 |

EMMETSBURG MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Statement of Revenues, Expenses
and Changes In Net Assets
Proprietary Funds
Year Ended June 30, 2005

| | Business-type Activities | | | |
|--|---------------------------------|-------------------|-------------------|------------------|
| | Gas | Water | Sanitation | Total |
| | Department | Department | Department | 2005 |
| Operating revenues: | | | | |
| Residential sales | \$ 1,124,531 | 157,781 | 184,474 | 1,466,786 |
| Commercial sales | 947,160 | 124,780 | 90,862 | 1,162,802 |
| Public authority sales | 204,394 | 14,267 | 14,432 | 233,093 |
| Customer fees | 150,150 | 136,908 | 168,922 | 455,980 |
| Interfund services provided | 34,569 | 924 | 1,683 | 37,176 |
| Penalties | 2,932 | 0 | 0 | 2,932 |
| Other | 9,447 | 5,706 | 4,346 | 19,499 |
| Total operating revenues: | 2,473,183 | 440,366 | 464,719 | 3,378,268 |
| Operating expenses: | | | | |
| Personal services | 124,853 | 121,189 | 118,682 | 364,724 |
| Contractual | 68,879 | 74,957 | 71,273 | 215,109 |
| Materials, supplies and maintenance | 1,983,689 | 48,060 | 50,235 | 2,081,984 |
| Utilities | 4,200 | 23,404 | 27,700 | 55,304 |
| Depreciation | 63,699 | 72,253 | 140,777 | 276,729 |
| Uncollected accounts | 6,965 | 0 | 95 | 7,060 |
| Interfund services used | 9,155 | 15,043 | 30,879 | 55,077 |
| Other | 46,940 | 0 | 0 | 46,940 |
| Total operating expenses | 2,308,380 | 354,906 | 439,641 | 3,102,927 |
| Operating income | 164,803 | 85,460 | 25,078 | 275,341 |
| Non-operating revenues and (expenses): | | | | |
| Interest income | 27,935 | 17,294 | 4,833 | 50,062 |
| Interest expense | (1,239) | 0 | (20,774) | (22,013) |
| Grant proceeds | 0 | 0 | 121,769 | 121,769 |
| Net loss on disposal of capital assets | (12,659) | 0 | 0 | (12,659) |
| Total non-operating revenues (expenses) | 14,037 | 17,294 | 105,828 | 137,159 |
| Income before transfers | 178,840 | 102,754 | 130,906 | 412,500 |
| Transfers to Primary Government | (116,881) | (5,000) | (5,000) | (126,881) |
| Change in net assets | 61,959 | 97,754 | 125,906 | 285,619 |
| Net assets at beginning of year | 2,860,196 | 2,825,097 | 3,845,656 | 9,530,949 |
| Net assets at end of year | \$ 2,922,155 | 2,922,851 | 3,971,562 | 9,816,568 |

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

| | Gas Department | Water Department | Sanitation Department | Total 2005 |
|---|---------------------|---------------------|--------------------------|------------------|
| Cash flows from operating activities: | | | | |
| Cash received from customers | \$ 2,397,983 | 430,382 | 458,721 | 3,287,086 |
| Cash payments to suppliers for goods and services | (2,012,154) | (194,312) | (151,238) | (2,357,704) |
| Cash payments to employees for services | (123,632) | (121,512) | (119,250) | (364,394) |
| Cash received for interfund services provided | 34,569 | 924 | 1,683 | 37,176 |
| Cash paid for internal services used | (9,155) | (15,043) | (30,879) | (55,077) |
| Other income | 9,447 | 5,706 | 4,346 | 19,499 |
| Other expense | (46,940) | 0 | 0 | (46,940) |
| Net cash provided by operating activities | 250,118 | 106,145 | 163,383 | 519,646 |
| Cash flows from noncapital financing activities: | | | | |
| Cash from or to Primary Government funds | 2,003 | 2,003 | 2,003 | 6,009 |
| Cash from or for interfund transactions | (61,662) | (1,256) | 62,918 | 0 |
| Collection of loan receivable - Primary Government | 26,000 | 0 | 0 | 26,000 |
| Interest on loan receivable - Primary Government | 1,624 | 0 | 0 | 1,624 |
| Transfers to Primary Government funds | (116,881) | (5,000) | (5,000) | (126,881) |
| Net cash provided (used) by noncapital financing activities | (148,916) | (4,253) | 59,921 | (93,248) |
| Cash flows from capital and related financing activities: | | | | |
| Loan proceeds | 0 | 0 | 375,247 | 375,247 |
| Loan payments | 0 | 0 | (25,000) | (25,000) |
| Grant proceeds | 0 | 0 | 121,769 | 121,769 |
| Interest paid | (1,239) | 0 | (20,134) | (21,373) |
| Acquisition and construction of capital assets | (40,421) | (315,703) | (771,891) | (1,128,015) |
| Net cash provided (used) for capital and related financing activities | (41,660) | (315,703) | (320,009) | (677,372) |
| Cash flows from investing activities: | | | | |
| Interest on cash investments and notes receivable | 27,355 | 17,023 | 4,810 | 49,188 |
| Collection of notes receivable from others | 44,697 | 0 | 0 | 44,697 |
| Net cash provided (used) by investing activities | 72,052 | 17,023 | 4,810 | 93,885 |
| Net Increase (decrease) in cash and cash equivalents | 131,594 | (196,788) | (91,895) | (157,089) |
| Cash and cash equivalents, beginning of year | 1,009,980 | 480,933 | 312,195 | 1,803,108 |
| Cash and cash equivalents, end of year | \$ 1,141,574 | 284,145 | 220,300 | 1,646,019 |
| Reconciliation of operating income to net cash provided by operating activities: | | | | |
| Operating Income | \$ 164,803 | 85,460 | 25,078 | 275,341 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 63,699 | 72,253 | 140,777 | 276,729 |
| Changes in assets and liabilities: | | | | |
| (Increase) decrease in accounts and other receivables | (23,424) | 0 | 1,490 | (21,934) |
| (Increase) decrease in accrued billing | (440) | (5,247) | (1,364) | (7,051) |
| (Increase) decrease in prepaid expenses | 9,314 | 4,192 | 3,342 | 16,848 |
| Increase (decrease) in accounts payable | 35,300 | (51,502) | (5,366) | (21,568) |
| Increase (decrease) in other liabilities | (210) | 1,487 | (6) | 1,271 |
| Increase (decrease) in accrued vacation pay | 1,431 | (323) | (568) | 540 |
| Increase (decrease) in customer deposits | (355) | (175) | 0 | (530) |
| Net cash provided by operating activities | \$ 250,118 | 106,145 | 163,383 | 519,646 |

See notes to the financial statements.

EMMETSBURG MUNICIPAL UTILITIES
COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Financial Reporting Entity

The Emmetsburg Municipal Utilities is the component unit of the City of Emmetsburg, Iowa. It consists of three funds, including the Gas department, the Water department and the Sanitation department. The Utilities do not purport to, and do not, present fairly the financial position of the City of Emmetsburg, Iowa as of June 30, 2005, and the changes in its financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting Policies

The Utilities apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Government Accounting Standards Board (GASB) pronouncements in which case, GASB prevails. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accounting policies of the Utilities conform to generally accepted accounting principles as applicable to governments except as noted below. The following is a summary of the significant policies:

A. Fund Accounting

The accounts of the Utilities are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in the report, under the Proprietary fund category.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining cost as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing, and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues of enterprise funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

All short-term investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

The Utilities maintains a cash and investment pool that is available for use by all funds. Certificates of deposit are separately held by each of the Utility's funds. Deposits are stated at cost.

The carrying amount of the Utility's deposits at June 30, 2005 was \$2,985,769 and the bank balance was \$3,009,383. The bank balance was covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board and the treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and, certain joint investment trusts. The Utilities currently invests only in certificates of deposit.

C. Accounts Receivable

No allowance for uncollectible accounts has been provided for at June 30, 2005.

D. Capital Assets and Long-Term Liabilities

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with Utilities activity are included on their Combining Statement of Net Assets. The Utilities reported net assets are segregated into Investment in capital assets (net of related debt) and Unrestricted.

No detailed depreciation schedule or continuing property record is maintained. Consequently, it is impossible to use generally accepted accounting principles for retirements or abandonment of capital assets. Salaries paid for plant investment have been expensed at the time of payment. Vehicle expense and overhead related to construction is not capitalized. Under generally accepted accounting principles, salaries, vehicle expenses and overhead should be capitalized.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Combining Statement of Net Assets. Depreciation has been provided over a range of estimated useful lives using the straight-line method as follows:

| | |
|-----------------------------|---------------|
| Structure and Plant | 20 – 50 years |
| Distribution System | 50 years |
| Equipment, Meters and Mains | 3 – 50 years |

E. Assets Whose Use is Limited

Assets whose use is limited include assets set aside by the Board of Trustees specifically designated for future capital improvements or other special future expenses, over which the board retains control and may at its discretion subsequently use for other purposes.

F. Pension and Retirement Benefits

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utilities is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the year ended June 30, 2005 was \$17,721, equal to the required contributions for the year.

G. Vacation and Sick Pay

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation pay is recorded as an accrued liability when earned and sick pay is not recognized as an expense until paid.

H. Budgets

The Emmetsburg Municipal Utilities follows these procedures in establishing their annual budget:

1. The City Administrator/Superintendent and Administrative Assistant submit to the Utility Board of Trustees and City Council a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenses and the means of financing them.
2. Public hearings are conducted at the City Hall to obtain taxpayer comments.
3. The budget is filed by March 15 of the commencing year along with the City of Emmetsburg budget.
4. The City Administrator/Superintendent, with the approval of the Board of Trustees and City Council in certain circumstances, is authorized to transfer budgeted amounts between departments within any fund or program; however, revisions that alter the total expenses of any class of expenses or expenditures require a formal budget amendment.
5. All appropriations lapse at year end.

2. **Note Receivable**

The Utilities had loaned \$50,000 to a local business to be used for expansion on September 2, 1999; however, the note balance of \$43,178 was paid in full during fiscal 2005. On June 6, 2002, the Utilities also entered into a loan agreement with a local manufacturing business to loan the business \$50,000, bearing interest at five percent. The Utilities advanced the company \$26,302 as of June 30, 2002 and the remainder as of June 30, 2003. The current balance at June 30, 2005 is \$48,481 and becomes due in monthly principal and interest payments of \$395, with final balloon payment of \$42,963 payable October 15, 2007.

3. **Loan Receivable – Primary Government**

The Utilities loaned the General Fund of the City of Emmetsburg \$160,000. The interest rate is equivalent to the rate of return received by the Utilities on their invested funds to be determined on January 1 and July 1 of each year and shall be applied retroactively for the previous six months. The loan must be repaid no later than April 1, 2007. The current balance of this loan is \$52,000.

4. **Assets Whose Use is Limited**

The composition of assets whose use is limited at June 30, 2005 is as follows:

| | <u>Gas</u> | <u>Water</u> | <u>Sanitation</u> |
|---|-------------------|----------------|-------------------|
| By Board for Capital Improvements and Replacement | | | |
| Cash in bank | \$ 151,503 | 124,720 | 111,625 |
| Certificates of deposit | 751,251 | 572,609 | 164,237 |
| By Board for Medical Reimbursement: | | | |
| Cash in bank | 39,733 | 4,138 | 4,137 |
| By Board for Industrial Development: | | | |
| Cash in bank | 3,370 | 35,682 | 40,301 |
| Certificates of deposit | 9,500 | 0 | 0 |
| | <u>\$ 955,357</u> | <u>737,149</u> | <u>320,300</u> |

5. **Restricted Assets – Cash and Cash Equivalents**

Restricted assets are comprised of cash in bank and certificates of deposit that can be used only to repay customer deposits.

6. **Changes in Capital Assets**

A summary of changes in capital assets follows:

| | <u>Balance 7/1/04</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/05</u> |
|---------------------------|---------------------------|------------------|------------------|----------------------------|
| Land | \$ 152,648 | 0 | 0 | 152,648 |
| Structures & plant | 5,227,266 | 0 | 54,526 | 5,172,740 |
| Distribution system | 4,130,581 | 259,301 | 0 | 4,389,882 |
| Equipment, meters & mains | 2,241,944 | 30,085 | 0 | 2,272,029 |
| Construction in progress | 81,111 | 856,527 | 17,899 | 919,739 |
| Total | <u>\$ 11,833,550</u> | <u>1,145,913</u> | <u>72,425</u> | <u>12,907,038</u> |

7. Long-Term Debt

The Utilities entered into Loan and Disbursement Agreements with the State of Iowa and the Iowa Department of Natural Resources (the "Department"), as a means of financing the construction of certain water and sewer treatment facilities of the Utilities. As a means of enabling the State and the Department to comply with the "continuing disclosure" requirements set forth in Rule 15c2-12 of the Securities and Exchange Commission, the Utilities agrees, during the term of the loans, to provide the Department with certain reports and other information as required. Original loans are detailed as follows:

\$2,750,000 Iowa State Revolving Loan Program Water Revenue Bond Series 2005 due in annual payments of \$102,000 – 179,000 to June 1, 2026, and interest at 3.00%. At June 30, 2005, the entire loan commitment balance of \$2,750,000 was unadvanced and available for advance.

\$600,000 Iowa State Revolving Loan Program Sewer Revenue Bond Series 2005 MC60R due in annual payments of \$20,000 – 35,000 (currently \$20,000) to June 1, 2025, and interest at 3.00%. At June 30, 2005, the loan balance totaled \$381,247, with an unadvanced commitment of \$218,753 available for advance.

\$202,000 Sludge Digestion Improvement series 1998B bonds due in annual payments of \$6,000 - \$15,000 (currently \$10,000) to June 1, 2018, and interest at 3.92%.

\$358,000 Sewer Revenue Bonds Series 1998A due in annual payments of \$13,000 - \$25,000 (currently \$15,000) to June 1, 2018, and interest at 4.23%.

Annual estimated debt service requirements related to the loans are as follows:

| <u>Year Ending</u> <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------------|-------------------|-----------------|------------------|
| 2006 | \$ 45,000 | 34,776 | 79,776 |
| 2007 | 55,000 | 33,149 | 88,149 |
| 2008 | 55,000 | 31,161 | 86,161 |
| 2009 | 55,000 | 29,173 | 84,173 |
| 2010 | 55,000 | 27,185 | 82,185 |
| 2011-2025 | <u>523,247</u> | <u>151,461</u> | <u>674,708</u> |
| | <u>\$ 788,247</u> | <u>306,905</u> | <u>1,095,152</u> |

8. Employee Benefits - Health Insurance (Partial Self-Insurance)

The Utilities have purchased a health insurance policy with a \$1,500 deductible per individual and a \$3,000 per family co-insurance clause. The Utilities then self-insures \$1,250 of the \$1,500 deductible.

9. Risk Management

The Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and, natural

disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

10. **Construction in Progress**

The Utilities has entered into a water treatment plant and well replacement contract in the water department. The cost incurred through June 30, 2005 includes engineering and related testing fees of \$192,977. The Utilities will be receiving a \$600,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, resulting in \$2,460,214 in costs that will be paid with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

| <u>Water Department</u> | |
|-------------------------------------|---------------------|
| Cost incurred through June 30, 2005 | \$ 192,977 |
| Estimated Cost to complete | <u>2,867,237</u> |
| Total estimated cost | \$ <u>3,060,214</u> |

The Utilities has also entered into a sewer outfall improvement contract in the sanitation department. The cost incurred through June 30, 2005 includes engineering fees of \$81,350. The Utilities has been awarded a \$451,000 Community Development Block Grant from the Iowa Department of Economic Development for the project, of which \$126,881 in grant proceeds were received in fiscal 2005. This leaves a cost of \$610,531 to be paid for with local government funds. The breakdown of the cost to date and estimated future costs is as follows:

| <u>Sanitation Department</u> | |
|-------------------------------------|---------------------|
| Cost incurred through June 30, 2005 | \$ 726,762 |
| Estimated Cost to complete | <u>334,769</u> |
| Total estimated cost | \$ <u>1,061,531</u> |

11. **Related Party Transactions**

The component unit bills and collects for garbage services provided for the Primary Government to its residents. During the year ended June 30, 2005, the component unit collected and remitted to the primary government \$284,034.

EMMETSBURG MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Required Supplementary Information
Year Ended June 30, 2005

Budgetary Comparison Schedule of
Revenues, Expenses and Changes in Net Assets -
Budget and Actual

| | | Budgeted Amounts | | Final to |
|---------------------------------------|--------------|------------------|-----------|-----------|
| | Actual | Original | Final | Actual |
| | | | | Variance |
| Operating revenues | \$ 3,378,268 | 2,948,482 | 2,948,482 | 429,786 |
| Operating expenses | 3,102,927 | 2,392,371 | 2,682,371 | 420,556 |
| | | | | 0 |
| Operating income | 275,341 | 556,111 | 266,111 | 9,230 |
| Non-operating revenues and (expenses) | 137,159 | 1,197 | 1,197 | 135,962 |
| Transfers to Primary Government | (126,881) | 0 | 0 | (126,881) |
| Net assets at beginning of year | 9,530,949 | 9,530,946 | 9,530,946 | 3 |
| Net assets at end of year | \$ 9,816,568 | 10,088,254 | 9,798,254 | 18,314 |

Notes To Required Supplementary Information - Budgetary Reporting

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. One of the nine functions included the business type activities. Function disbursements required to be budgeted include disbursements for the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$290,000. This budget amendment is reflected in the final budget amounts.

See Independent Auditors' Report.

EMMETSBURG MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF EMMETSBURG, IOWA
Combining Schedule of Operating Expenses
Year Ended June 30, 2005

| | Gas Department | Water Department | Sanitation Department | Total 2005 |
|--|---------------------|---------------------|--------------------------|------------------|
| Personal services: | | | | |
| Trustee fees | \$ 2,700 | 863 | 900 | 4,463 |
| Administrative salaries | 12,066 | 12,330 | 11,932 | 36,328 |
| Office salaries | 14,706 | 14,706 | 14,706 | 44,118 |
| Plant labor | 68,990 | 66,972 | 66,407 | 202,369 |
| Extra labor | 4,768 | 4,768 | 4,768 | 14,274 |
| Overtime | 7,291 | 7,443 | 6,048 | 20,782 |
| IPERS | 5,998 | 5,901 | 5,822 | 17,721 |
| Payroll taxes | 8,344 | 8,216 | 8,109 | 24,669 |
| Total personal services | <u>124,853</u> | <u>121,189</u> | <u>118,682</u> | <u>364,724</u> |
| Contractual: | | | | |
| Advertising | 1,997 | 1,857 | 1,717 | 5,571 |
| Professional | 2,983 | 13,732 | 8,169 | 24,874 |
| Insurance | 8,668 | 16,040 | 14,884 | 39,592 |
| Health insurance and risk fund | 25,058 | 32,038 | 28,993 | 86,089 |
| Analytical testing and contract | 0 | 1,071 | 15,184 | 16,255 |
| Drug testing | 242 | 0 | 0 | 242 |
| Defense group expense | 5,084 | 0 | 0 | 5,084 |
| Regulatory commission | 8,884 | 7,189 | 1,059 | 17,132 |
| Conference and education | 4,399 | 3,030 | 1,277 | 8,706 |
| Regulation and compliance | 1,371 | 0 | 0 | 1,371 |
| Energy efficiency plan | 9,700 | 0 | 0 | 9,700 |
| Collection expense | 493 | 0 | 0 | 493 |
| Total contractual | <u>68,879</u> | <u>74,957</u> | <u>71,273</u> | <u>215,109</u> |
| Materials, supplies and maintenance: | | | | |
| Cost of natural gas purchased | 1,942,918 | 0 | 0 | 1,942,918 |
| Maintenance supplies | 2,751 | 2,828 | 7,054 | 12,633 |
| Automotive supplies and expense | 3,749 | 2,911 | 4,048 | 10,708 |
| Other equipment supplies and expense | 495 | 732 | 8,668 | 9,895 |
| Computer maintenance and supplies | 4,205 | 3,762 | 4,357 | 12,314 |
| Chemicals | 0 | 8,999 | 250 | 9,249 |
| Maintenance and materials - mains | 14,139 | 7,627 | 0 | 21,766 |
| Treatment plant maintenance | 0 | 1,890 | 0 | 1,890 |
| Water well maintenance | 0 | 7,368 | 0 | 7,368 |
| Meter replacement maintenance | 0 | 2,954 | 0 | 2,954 |
| Collection system maintenance | 0 | 0 | 1,150 | 1,150 |
| Lift station maintenance | 0 | 0 | 2,604 | 2,604 |
| Office supplies | 5,011 | 5,881 | 6,400 | 17,292 |
| Uniforms | 639 | 848 | 651 | 2,138 |
| Use tax | 1,803 | 0 | 0 | 1,803 |
| Maintenance buildings and grounds | 34 | 55 | 12,456 | 12,545 |
| Miscellaneous | 7,945 | 2,215 | 2,597 | 12,757 |
| Total materials, supplies and maintenance | <u>1,983,689</u> | <u>48,060</u> | <u>50,235</u> | <u>2,081,984</u> |
| Utilities: | | | | |
| Lift station power | 0 | 0 | 4,177 | 4,177 |
| Phone | 2,540 | 2,482 | 2,460 | 7,482 |
| Electric | 1,660 | 20,922 | 21,063 | 43,645 |
| Total utilities | <u>4,200</u> | <u>23,404</u> | <u>27,700</u> | <u>55,304</u> |
| Depreciation | <u>63,699</u> | <u>72,253</u> | <u>140,777</u> | <u>276,729</u> |
| Uncollectible accounts | <u>6,965</u> | <u>0</u> | <u>95</u> | <u>7,060</u> |
| Interfund services used: | | | | |
| Administrative fees - Primary Government | 7,596 | 7,596 | 7,596 | 22,788 |
| Utility fees to Emmetsburg Municipal Utilities | 1,559 | 7,447 | 23,283 | 32,289 |
| Total interfund services used | <u>9,155</u> | <u>15,043</u> | <u>30,879</u> | <u>55,077</u> |
| Other expenses: | | | | |
| Telecommunication study | 45,940 | 0 | 0 | 45,940 |
| Donations | 1,000 | 0 | 0 | 1,000 |
| Total other expenses | <u>46,940</u> | <u>0</u> | <u>0</u> | <u>46,940</u> |
| Total operating expenses | <u>\$ 2,308,380</u> | <u>354,906</u> | <u>439,641</u> | <u>3,102,927</u> |

See Independent Auditors' Report.

Burdorf, Parrott And Associates, P.C.

Certified Public Accountants

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INDEPENDENT AUDITORS' COMBINED REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Emmetsburg Municipal Utilities
Emmetsburg, Iowa

We have audited the financial statements of the Emmetsburg Municipal Utilities, a component unit of the City of Emmetsburg, Iowa, as of and for the year ended June 30, 2005, and have issued our reports thereon dated November 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over



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financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no reportable conditions that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the Board, management, authority members and federal and state awarding agencies. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Emmetsburg Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Burdorf, Parnott And Associates, P.C.

November 21, 2005

Emmetsburg Municipal Utilities

Schedule of Findings

Year ended June 30, 2005

REPORTABLE CONDITIONS:

05-I-A Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities component financial statements. We noted that one individual at the Utilities office has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that the limited number of office employees, segregation of duties is difficult. However, the Utilities should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and have determined that our policy of involvement of the Board of Trustees along with the administration's monitoring of transactions is the best we can do.

Conclusion - Response accepted.

Other findings Related to Required Statutory Reporting:

05-II-A Official Depositories - A resolution naming official depositories has been adopted by the Utilities. The maximum deposit amounts stated in the resolution were not exceeded during the year.

05-II-B Certified Budget - Expenditures during the year ended June 30, 2005 exceeded the budget for the year. See page 20.

- 05-II-C Questionable Expenditures – There were no questionable expenditures that fell outside its established policy on such costs.
- 05-II-D Travel Expense - No expenditures of Utilities money for travel expenses of spouses of Utilities officials or employees were noted.
- 05-II-E Business Transactions - Business transactions between the Utilities and Utilities officials or employees are as follows:

| <u>Name, Title and Business Connection</u> | <u>Description of Transaction</u> | <u>Amount</u> |
|--|---------------------------------------|---------------|
| Paul Saxton, Trustee Saxton's Greenhouse | Purchase of Grass seed | \$159 |
| Nick Steinkamp, Trustee K & W Electric, Inc. | Repairs | \$1,787 |

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Saxton's Greenhouse does not appear to represent conflict of interest since it is not more than \$1,500. The transaction with K & W Electric does not appear to represent a conflict of interest since the total purchase did not exceed a cumulative total of \$2,500 for the fiscal year.

- 05-II-F Bond Coverage - Surety bond coverage of City officials and employees including the Utilities is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- 05-II-G Council Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- 05-II-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities investment policy were noted.
- 05-II-I Revenue Bonds - The Utilities has complied with all requirements of the Loan and Disbursement agreements.